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Devolution and the role of Commercial Real Estate Development

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PRACTICE & LAW BUSINESS RATES

Practice & Law

A recent flood of announcements concerning the devolution of government powers to local areas signals the growing transfer of power from Whitehall to a generation. Devolution, growth and rigidity are now the order of the day, while the Northern Powerhouse and Leeds Merit have been welcomed as a revolution in devolution for local authority working. These changes to the way government is organised have been broadly welcomed by city leaders and commentators alike as an opportunity for local areas to exert control over their destiny and stand on their own two feet.

So far, there has been very little debate surrounding what these changes mean for the commercial property sector. This debate is particularly notable with respect to the Chancellor's announcements, as the Conservative Party Conference 2015, of the first localisation of business rates. The statement took many by surprise (the SNP quickly announced similar proposals in Scotland) and initially received considerable attention. After a brief spike in media coverage, however, the matter has subsequently dwindled to a negligible level.

Made to coincide, following devolution, local business rates, and by extension the performance and potential growth of local commercial real estate markets, will become a central concern not only for local authority financial planning and investment but the wider business sector and local economy.

The reality of the situation is currently difficult to fathom ahead of the impending public spending review due at the end of this month. However, what is possible is the recent exposure of this traditionally recent issue and the opportunity for debate. This article reflects on some of the uncertainties, assumptions and challenges in the recent business rates announcements and the potential challenges and opportunities for public sector provision and the commercial property sector.

Commercial real estate
The original business rate residence

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A REVOLUTION IN DEVOLUTION

Business rates Kevin Muldoon-Smith and Dr Paul Greenhalgh consider how the recent business rates announcements will affect the commercial property sector



scheme, introduced in 2010, gave local authorities the potential to receive 50% of business rate income and up to 100% of any growth in business rate income, synchronised with construction of new employment (commercial and industrial)

development. The remainder was retained to enable governments and redistributed to England in a similar way to the previous formula grant method of funding. The Chancellor's recent announcements has extended the 50% principle to 2015, but

Introduction

A whirlwind tour of R3 Intelligence and our recent work:

- Where the project originated
- How we have done it
- What we have produced
- Why it is important

Reason for producing this summary:

- Disseminate preliminary analysis and findings
- Demonstrate the synergy between commercial real estate and devolution
- Offer opportunity for feedback and suggestions as to how we can support landlords and developers in the devolution revolution

Project Evolution

- Previous research regarding commercial real estate filtering, chaining, displacement and resilience (Greenhalgh 2003, 2008, Greenhalgh and King 2010, 2013).
- Highlighted gap and potential for hybrid property market data models.
- Led to PhD studentship (Dr Kevin Muldoon-Smith) and the creation of a multi criteria real estate model of England and Scotland using Valuation Office Agency and National Business Rate Returns.

Method (Data and Filtering)

- The model of commercial and industrial property can be drilled down into the individual hereditament or aggregated and up-scaled to property sector (including relative homogeneity).
- The presentation of our data is flexible (descriptive, trend, statistical, and spatial/GIS) and has the potential to be further enhanced with additional data sets such as IMD, Local Government Spend, Business activity etc

Our data base contains:

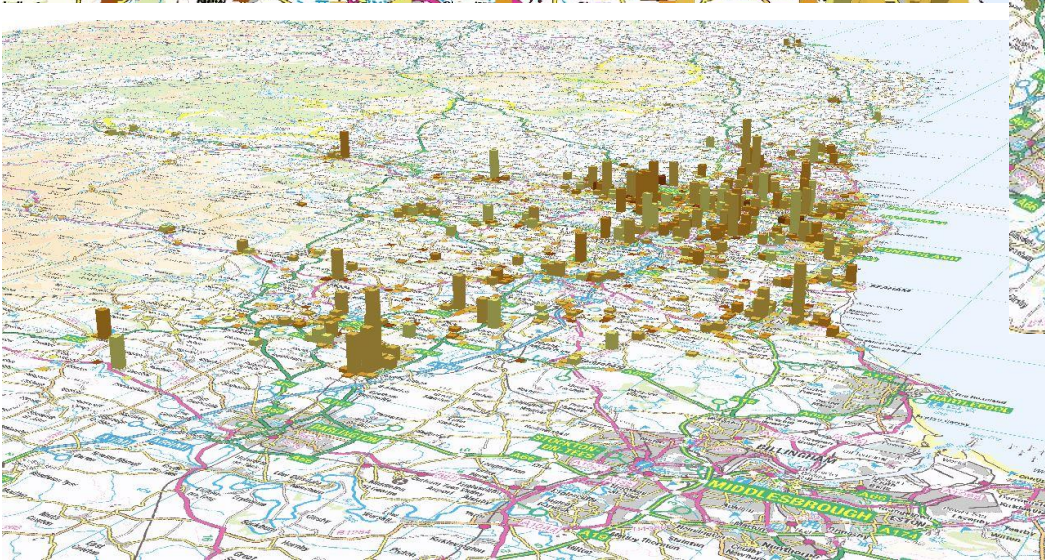
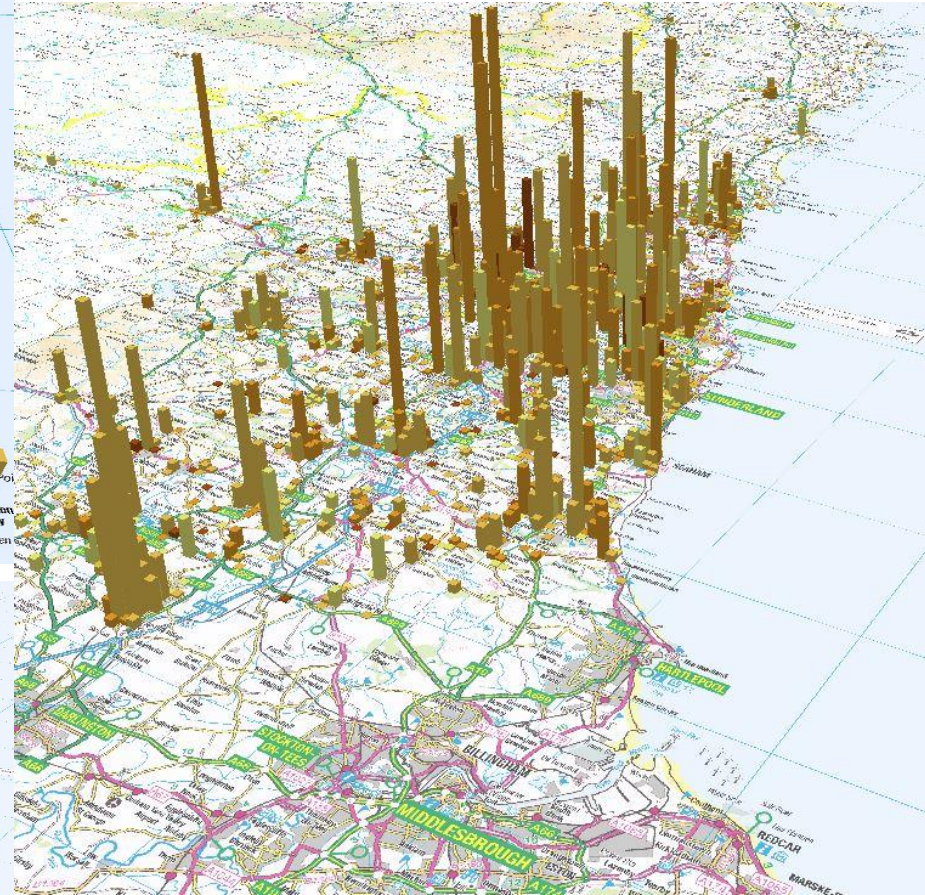
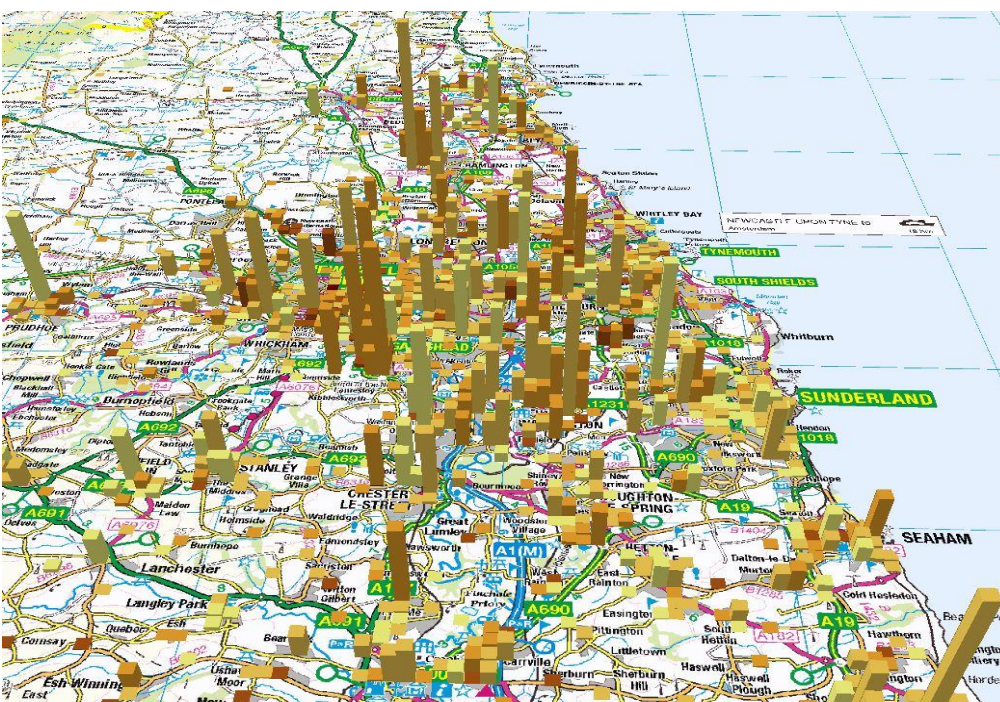
	(millions)	(Billions)
■ Office space:	92m sq m	1bn sq ft
■ Industrial space:	323m sq m	3bn sq ft
■ Retail space:	181m sq m	1bn sq ft

Initial Analysis

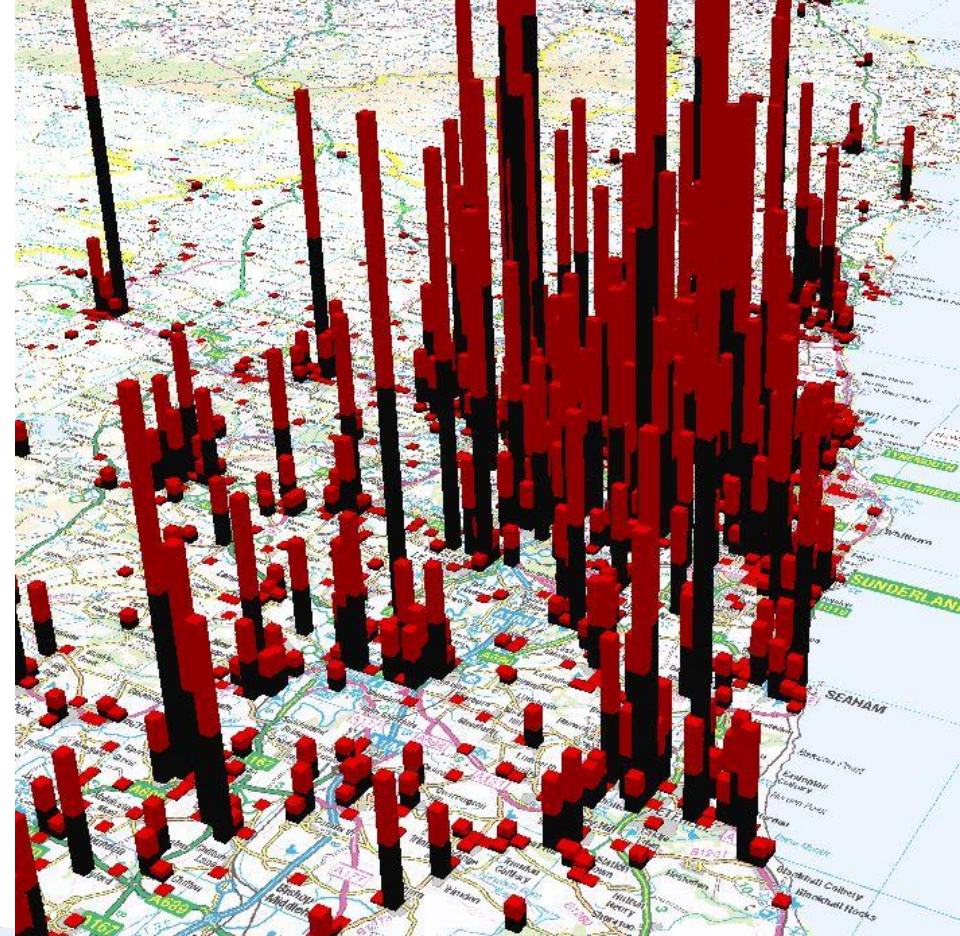
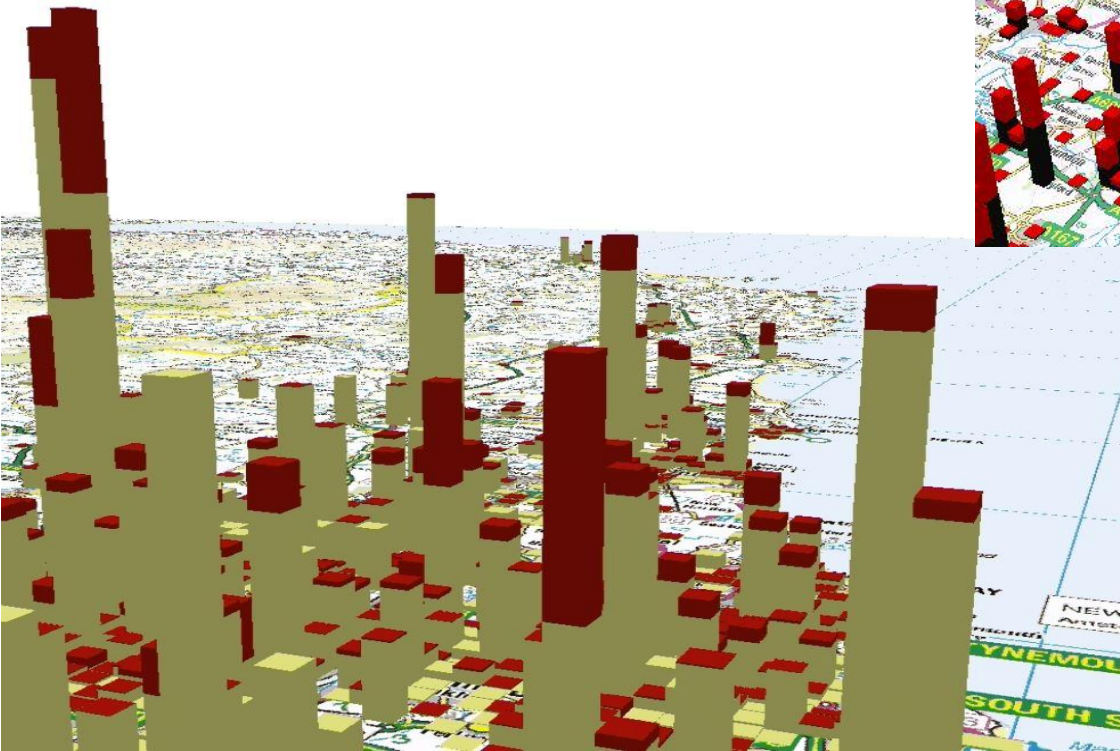
- Office vacancy time bomb
- Citibase Ltd: Survey of secondary office vacancy in the UK
- Spatial Analysis/GIS modelling of:
 - Tyne and Wear
 - Tees Valley
 - Leeds
 - Croydon



Manhattan on Tyne and Wear

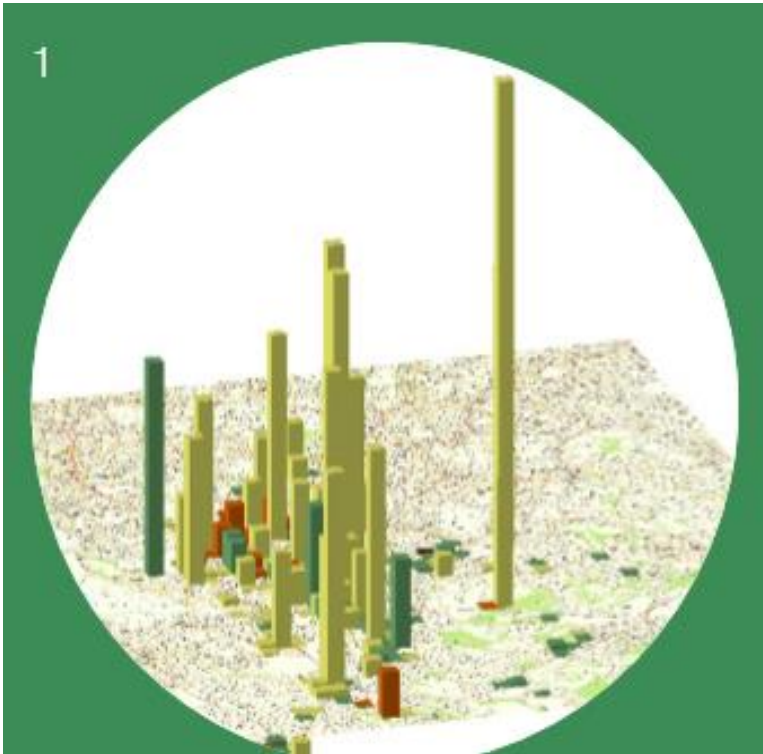


Stock Efficiency: a GIS model of commercial & industrial stock and vacancy in Tyne and Wear



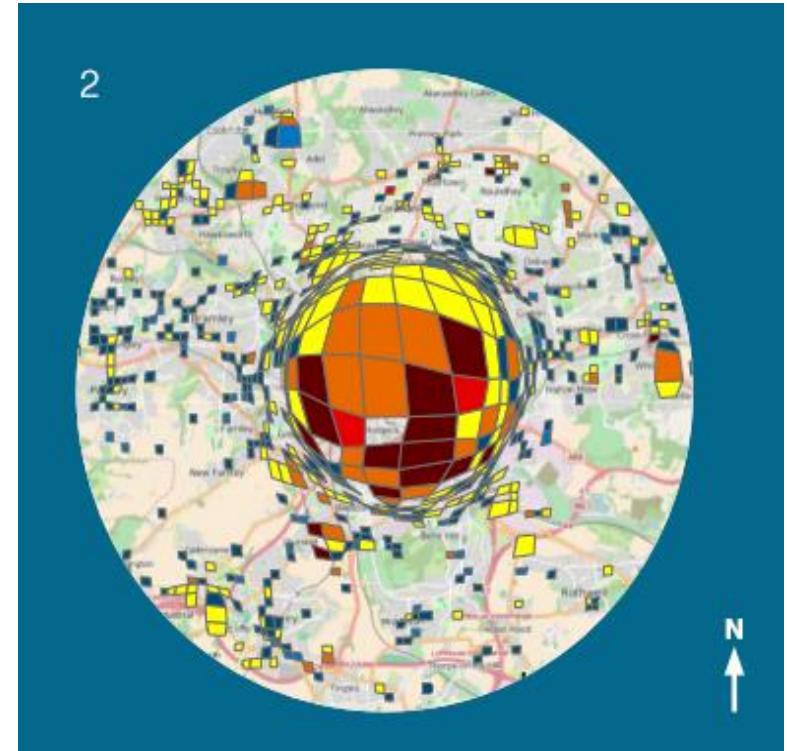
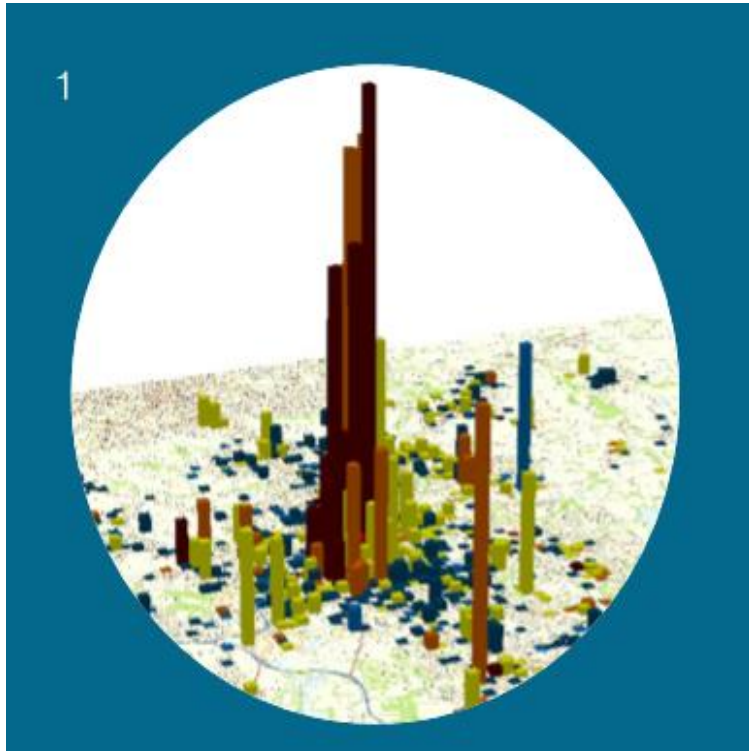
<http://r3intelligence.co.uk/>

The Croydon Office Market



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The Leeds Office Market



Current Position

- We now have a fully functioning multi-criteria model of the commercial real estate market in the UK - this has never been done before.
- Alongside the perennial importance of 'location, location, location' we now have 'evidence, evidence, evidence.'
- We have the ability to apply this methodology to any geographical area in England, Wales and Scotland.
- The last dataset provided by the Government regarding property market vitality was published in 2005 (a local authority scale estimate); it is still being used to inform current policy initiatives such as the recent permitted development right rule changes regarding office to residential conversion.

Subsequent research

- Our model is based on national property valuation and tax information
- This has allowed us to explore and feed into the current devolution and fiscal decentralisation debate.
- We have submitted and subsequently been called as expert witnesses to:
 - All Party Parliamentary Group (APPG) round table on Reform, Decentralisation and Devolution in the UK, and
 - Communities and Local Government (CLG) Select Committee review of business rate retention.

Some questions?

- Devolution is happening but what are its consequences for the region?
- Is the 'Northern Powerhouse' more than just a brand?
- Devolution is underwritten by business rate retention and that means the performance of existing commercial property and the development of new property stock
- How will the stock of commercial and industrial property and supply of new build influence local government funding in the region?
- There is much confusion and little detail about financialisation of real estate - we hope to shed some light on these matters

Why is this important?

- Towns and cities need to make best use of existing property and plan new development accordingly – currently there isn't any evidence base!
- Our model provides evidence for:
 - More efficient land use planning
 - Economic development strategies
 - Business rate retention planning
 - Monitoring and simulation of contemporary methods of urban intervention such as:
 - Tax Increment Financing (general and new development deal),
 - Enterprise Zones
 - other retained business rate models such as Accelerated Development Zones
- One way or another, public sector service provision is now pegged against the performance of commercial real estate; we can monitor this performance and direct its potential improvement.

Opportunity knocks: Not just about LAs

- No representation from landlord or development sectors into these enquiries – missed opportunity!
- Did you know that Local authorities make more money out of Empty Property Rates than business activity? – opportunity to reform Empty Property Rates
- Real estate development funds devolution – opportunity for landlords and developers to take centre stage and lead the devolution debate
- How will business occupiers and small businesses be affected by the way property markets respond to challenges?

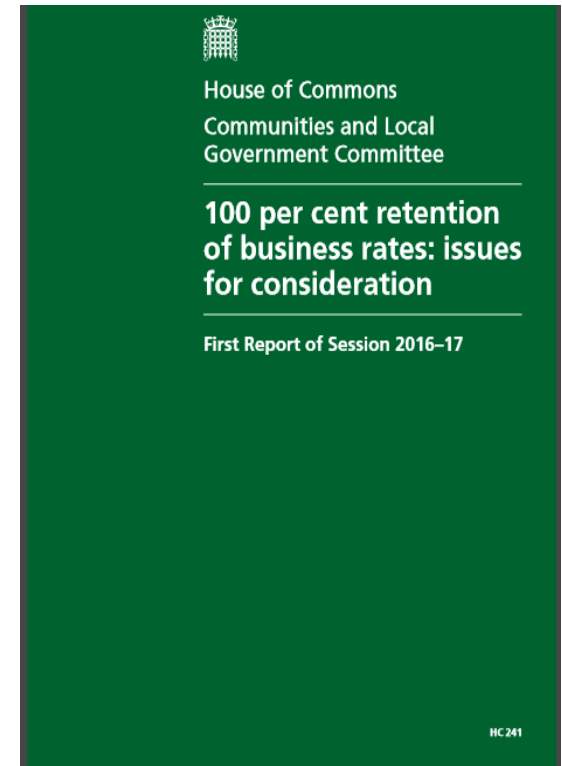
and finally...

- What do you think?
 - First impressions
- What can else could we do?
 - Identify potential to extend application
- Have we missed any tricks?
 - Identify new opportunities
- Let us help you – give us access to your data

Any thoughts to:

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R3intelligence is dedicated to supplying high quality impartial commercial real estate research and advice.

Request an exploratory meeting with either Dr Paul Greenhalgh or Dr Muldoon-Smith

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